STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 99-586

October 28, 1999

NORTHERN UTILITIES, INC.,
Proposed Cost of Gas
Factor for the 1999/2000
Winter Period and Annual
Environmental Recovery Cost
Adjustment

ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

We approve Northern Utilities, Inc.'s (Northern) proposed Cost of Gas Factor (CGF)[1] for the 1999-2000 winter period and an Environmental Response Cost Adjustment (ERCA) of ($0.0091) per Ccf. We will keep this docket open to allow further review of Northern's insurance and third party recoveries of its environmental response costs to determine the reasonableness thereof. Finally, we open a new docket to investigate Northern's proposal to apply a surcharge for Wells LNG cancelled project costs on transportation and bundled sales customers.

II. PROCEDURAL HISTORY

On August 23, 1999, pursuant to 35-A M.R.S.A. § 4703 and Chapter 430(2) of the Commission's Rules, Northern filed its proposed CGF for the 1999-2000 Winter period and its proposed change to the ERCA as allowed in Docket No. 96-678. The Commission issued a Notice of Proceeding to interveners in prior CGA cases and by publication in newspapers of general circulation in Northern's service area.

The Office of the Public Advocate (OPA) intervened. A preliminary hearing was held on September 29, 1999 at which the Examiner established a schedule for this proceeding.

On October 1, 1999, Northern filed a proposed Thirtieth Revised Sheet No. 20.1 to include a cancelled-plant cost surcharge related to the Wells LNG project approved by the Commission in Docket No. 99-259 for inclusion in the CGF. Additionally, Northern proposed that these costs be recovered from some or all of its transportation customers under proposed Original Page 30.14.

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[1] The Cost of Gas Factor was formally known as the Cost of Gas Adjustment. The name was changed as a result of the rate design case in Docket 97-393.

To investigate these proposed rate changes, the Advisory Staff and OPA issued data requests to the Company on its filing. In addition, the Staff and parties participated in a technical conference on October 20, 1999.

Northern filed a revised ERCA rate schedule and supporting calculations on October 22, 1999, modifying its ERCA rate proposal to credit ratepayers in this period with one half of the third party and insurance recoveries allocated to Northern by its affiliate, Bay State Gas Company, approximately $1 million.

An Examiner's Report was issued October 22, 1999. The OPA filed exceptions on October 26, 1999 arguing that additional interest should be provided to ratepayers by the Company on the insurance recoveries. On October 27, 1999, the Advisory Staff filed its recommendation on OPA's exceptions.

This matter was deliberated October 28, 1999.

III. RECORD

The record in this proceeding includes all filings, data responses, transcripts, and any other materials provided in this proceeding.

IV. DISCUSSION

A. Overview of Proposed Rates

This is Northern's first filing reflecting the changes initiated in the Docket 97-393 rate design case. One of the major changes is that the CGF is now calculated on a class-specific basis instead of on a company-wide basis. Northern proposes the following 1999-2000 Winter Period CGF rates on a per hundred cubic feet (Ccf) basis to become effective November 1, 1999:

Class	Rate
Residential - Heat & Non-Heat (R-2 & R-1)	$0.4652
Small Commercial - Low Winter Use (Rate Q)	0.2889
Small Commercial - High Winter Use (Rate R)	0.4827
Medium Commercial - Low Winter Use (Rate S)	0.3182
Medium Commercial - High Winter Use (Rate T)	0.4823
Large Commercial/Industrial - Low Winter Use (Rate U)	0.3029
Large Commercial/Industrial - High Winter Use (Rate V)	0.4649

The original filing also proposed an ERCA of ($0.0228) which included a credit of approximately $2 million for third party and insurance recoveries. Later, Northern proposed to credit ratepayers with half of the amount of total insurance recoveries ($1,030,663) in this winter period, resulting in an ERCA of ($0.0091). Finally, the CGF includes a surcharge of $0.0134 per Ccf for all sales customers to recover cancelled project costs for the Wells LNG facility.

The major issues related to these proposed rates are discussed separately below.

1. Rate Design Changes

We recently approved a revised rate design for Northern that establishes different gas commodity rates for different customer classes rather than assigning a single, average CGF to all classes. See Northern Utilities, Inc., Request for Approval of Rate Design and Partial Unbundling Proposal, Docket No. 97-393, Order (Sept. 3, 1999). In addition, the rate design modified the classes and membership to better match the cost of providing service. Finally, this CGF includes gas-related portions of revenue requirements, such as working capital and bad debt expense, that were moved from base rates to the CGF. The overall effect of this rate design was an increase in residential customers' gas rates and decreases in the gas rates for large industrial customers. Some customers will also experience bill impacts from changes to the customer classes.

Our Advisory Staff has reviewed Northern's proposed rates and concludes that they appear consistent with the recently approved rate design stipulation.

2. Last Winter Period Over-collection

On August 13, 1999, Northern reported an over-collection from the last winter period of approximately $2.3 million. Northern states that this over-collection resulted from a variety of factors, most notably a warmer than usual season so that gas prices were not as high as projected and the delay in the Portland Natural Gas Transmission System (PNGTS) pipeline coming into service. While ratepayers are ultimately made whole through reconciliation in the subsequent winter period, it is generally preferable to avoid large over- or under-collections. This is to ensure that consumers' gas costs will more closely match market rates and to avoid burdening both the Company and ratepayers with unnecessary collections and refunds. Nevertheless, CGF rates are based on projections of both sales and prices and cannot be entirely accurate.

We recognize that Northern has recently made changes in some of its main base load supply resources (from Portland Pipe Line supplies to PNGTS) and that a certain degree of uncertainty can be expected to result from such transitions. We also note that this over-collection also offsets increased gas costs in this winter period, to some degree softening the rate impacts of the new supply commitments, rate design changes, and factors increasing rates for this winter period. It is notable that even with the increases resulting from new, more expensive supplies and cancelled-project surcharges, gas rates for the 1999-2000 winter period are at levels similar to the rates for the 1997-1998 winter period[2] as developed under the new class gas cost allocation method.

[2] This is the comparable test year period used in the rate design proceeding.

3. Other Factors

As with every CGF filing, the Advisory Staff reviewed Northern's management of its gas supply portfolio. Staff found no evidence that the portfolio was unreasonable.

B. The Environmental Cost Recovery Adjustment

The ERCA includes insurance recoveries for the first time since it was implemented in Docket No. 96-678. These recoveries were made in a lump sum to Bay State Gas and then allocated between Northern and Bay State Gas.

This proceeding did not allow sufficient time for Staff to fully evaluate the environmental insurance and third party settlement amount and the allocations by which these recoveries were apportioned among Northern's Maine and New Hampshire divisions and Bay State. We reserve final judgment on the reasonableness of the insurance and third party recoveries allocated to Maine until we complete this further review. We will keep this docket open for that review and can adjust the rate as warranted.

Subsequent to its original filing, Northern proposed a modification of treatment of the ERCA insurance recovery credit, recognizing that crediting the full $2 million insurance recovery to the 1999-2000 winter period would create a perceived increase in rates next season of approximately 5%. In addition, the current $2.3 million refund for the prior over collection would also expire, resulting in an additional effective increase in next winter season's CGF. The combined effect would be an overall rate increase in November 2000 of approximately 12%, which might be pushed even higher if gas (and oil) prices continue to rise.

Northern suggests that it would be preferable to avoid this potential "rate shock" for ratepayers in the next winter period and proposes that the insurance recovery amount be phased-in to avoid this result. Thus, Northern now proposes an interim ERCA rate that includes a credit of one-half of the original amount for implementation November 1, 1999. Unless otherwise determined during our further review, Northern would apply the remaining one-half of the credited recovery amount to the next ERCA recovery year beginning November 1, 2000. In the meantime, the insurance credit amount remaining on Northern's books for refund to ratepayers in the next winter period will earn interest.

In its exceptions, the OPA requested that we also order Northern to include with its insurance recoveries interest accruing during the time since the receipt of those recoveries by the company until it credits these amounts in rates. The Advisory Staff notes that this issue can be addressed during the further review of Northern's reported insurance recoveries and need not be decided in this Order. We agree.

We find Northern's revised ERCA proposal reasonable and approve it subject to future determinations regarding the correct amount of total recoveries allocated to Maine and of applications of the remaining amount if different than noted above.

C. Wells LNG Project Cost Surcharge

The current CGF rates include a surcharge for the Wells LNG settlement of $0.0134 per Ccf. The surcharge results from a comprehensive settlement of both state and federal proceedings which the MPUC expects to join this month, as approved in Docket No. 99-259. The settlement establishes that Maine ratepayers will pay $4.5 million of cancelled project costs to the project developer (also Northern's affiliate), the Granite State Gas Transmission Company, over a period of seven years. The Wells surcharge increases bills for the typical residential customer for an average winter month by approximately 2%.

The settlement requires the approval of the Federal Energy Regulatory Commission (FERC). Therefore, the surcharge is included in rates subject to refund if the FERC does not approve the settlement as filed.

The stipulation also required Northern to propose that the surcharge be recovered from some or all of its transportation customers. Northern submitted proposed Original Page 30.14 to fulfill this obligation. However, because this request was made late in the CGF review period to allow adequate public notice and investigation of this issue, we will open a separate docket for consideration of this proposal. Meanwhile, the surcharge will be applied to gas sales customers as a component of the CGF as shown in Northern's Thirtieth Revised Sheet No. 20.1 filed on October 1, 1999.

IV. CONCLUSION

We approve Northern's proposed 1999-2000 Winter Period CGF based on the Advisory Staff's recommendation. We also approve Northern's revised ERCA rates, subject to further determinations regarding the environmental response recovery amounts and their allocation to Maine.

Accordingly, we

O R D E R

1. That Northern Utilities, Inc.'s proposed revised CGF rates shall take effect for gas consumed on or after November 1, 1999;

2. That Northern Utilities, Inc.'s Thirtieth Revised Sheet No. 20.1 constituting its Cost of Gas Factor for the period November 1, 1999 through April 30, 1999, is approved;

3. That Northern Utilities, Inc.'s Sixth Revised Sheet No. 34.3, the Environmental Response Cost Adjustment tariff, is approved and will become effective November 1, 1999, but that issues regarding the amount and allocation of the insurance and third party recoveries credited to Maine will be subject to further review in this docket; and

4. That Northern Utilities, Inc.'s proposed Original Page 30.14 is not approved at this time but the Commission will open a formal investigation to review its proposal to apply the Wells LNG project cost recovery surcharge to transportation customers.

Dated at Augusta, Maine, this 28th day of October, 1999.

BY ORDER OF THE COMMISSION

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Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Nugent
Diamond